o ~~The sum of the LEC's effective rate and EUCL~~ should not be higher than the price ceiling, and their sum should not be lower than the price floor.

43. In Table 3.5 of the attachments, DRA further demonstrates its pricing proposal and how it would apply to Pacific. The benchmark zone, Zone-7 as shown in Table 3.4, sets the statewide price floor for the 1FR service. The window for pricing flexibility would be the amount of shared and common costs allowed to be recovered by Pacific. Because Pacific allocates equal amounts of shared and common costs to each access line, the pricing flexibility window is identical across all of Pacific's service territories. DRA's subsidy mechanism and pricing flexibility proposals would provide a minimum revenue stream for Pacific at the TSLRIC. And, Pacific's maximum revenue stream would be capped at TSLRIC plus a reasonable proportion of shared and common costs.

44. DRA concurs with the Commission that the LECs' statewide average rates must remain in place for the present and until relevant cost studies by relevant geographic region have been completed and approved.[27] The Commission indicated that it "... shall coordinate with the ongoing work in companion proceedings [i.e., the OAND, Universal Service, and NRF] and subsequently determine a procedural schedule for the preparation, review, and approval of cost and price studies which can be used for the adoption of geographically deaveraged rates."[28] DRA believes the appropriate proceeding to address these issues would be the OAND proceeding.[29] DRA urges the Commission to promptly

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27. D.96-03-020 at 65.
28. D.96-02-060 at 66.
29. Based on ALJ's Ruling of March 25, 1996 in the OAND proceeding, the issue of geographic rate deaveraging is explicitly excluded from the May 25, 1996 parties' testimony.

(~~Footnote continues on next page~~)

~~set a procedural schedule in the OAND proceeding to address these issues~~.

VIII. [Q.5] What are the additional costs associated with subsidizing business customers in high cost areas?

45. In its position paper filed in this proceeding, DRA proposed that business customers not be subsidized.[30] DRA maintains this position. If the Commission decides to subsidize business service, DRA believes the subsidies should be limited to truly high cost areas. In that scenario, DRA recommends a subsidy mechanism similar to that proposed for residential service with minor modifications, as explained in detail below:

A. Benchmark Zone and High Cost Areas

46. DRA proposes that the benchmark zone for business service be the one with the highest TSLRIC cost which does not exceed $51.10. High cost areas would be identified as those zones in which the TSLRIC is above the TSLRIC of the benchmark zone. The $51.10 rate is the current 1MB rate ($45.10) plus EUCL ($6.00) for Contel which is currently the highest 1MB rate in California.

(~~Footnote continued from previous page~~)

However, the ~~Commission~~ recognized the importance of geographic rate deaveraging in a ~~competitive~~ environment and the need to develop appropriate geographically ~~deaveraged~~ costs to support such a pricing policy for the LECs' retail and ~~wholesale~~ service ~~offerings. (D.96-03-020 at 66~~.)

30. DRA's January 19, 1996 Position Paper at 5-6.

B. Subsidies

47. The subsidy amount for the 1MB would be determined by the difference between TSLRIC of the respective zone less TSLRIC of the benchmark zone. The same subsidy amount should be available to all certificated carriers of last resort, and applicable to all business lines in high cost areas. Because Centrex/CentraNet and PBX are comparable to 1MB, DRA believes the same per line subsidy should be extended to include these services. However, DRA does not recommend that subsidies be applied to Centrex/CentraNet and PBX at this time until cost and price issues relating to Centrex/CentraNet and PBX are resolved by the Commission in the OAND proceeding.

C. Offsets

48. Similar to residential service, the EUCL is assessed on the 1MB to reimburse LECs for a portion of their interstate costs. Under the FCC's direction, different EUCLs are assessed by different LECs, and different EUCLs are assessed on single and multi-line business service of the same LEC. DRA proposes that each LEC offset their monthly statement submitted to the California high cost voucher fund by the amount of EUCL which differs from $6.00 per line. That is, each LEC should file additional claims if its EUCL is less than $6.00 per line. Correspondingly, each LEC should deduct from its claims if its EUCL is in excess of $6.00 per line.

49. Due to the lack of precise cost information regarding business services, DRA is unable to estimate subsidies required for business services at this time

IX. [Q.7] What is your best estimate of the cost for providing universal service (throughout the state)?

50. Using the March 26, 1996 outputs from the CPM, DRA estimates the cost for providing universal service for residential customers throughout the state to be approximately

$850 million. (Table 3.6.) If the Commission adopts the CPM as modified by DRA's recommendations discussed in this report, the funding requirement for subsidizing residential services would be reduced. Due to the lack of ~~cost~~ data for other elements ~~business services~~, DRA * provides hypothetical numbers to demonstrate the calculation of total subsidy requirement for the high cost voucher fund as shown below:

o	Residential Service (1MR and 1FR)	$850 million
o	Business Service (1MB)	$7 million
o	Health, Education and Libraries	$100 million
o	Interstate USF and CCLC (reduction)	($300 million)
o	Administrative cost	$15 million
	Total	$672 million

51. DRA estimates the administrative cost for the California high cost voucher fund to be 1.5% of the total required subsidies ($850 + $7 + $100 million). This percentage is based on the National Exchange Carrier Association (NECA) filing made on April 2, 1996 with the FCC in compliance with the FCC's order in the Matter of Commission Requirements for Cost Support Material To Be Filed With 1996 Annual Access Tariffs and for Other Cost Support Material, DA 96-263, released February 29, 1996 and under authority of the FCC's Special Permission No.96-114. NECA manages the collection and distribution of access revenues from the interstate long distance companies. For fiscal year 1996-1997, NECA projected total access revenues to be approximately $2.8 billion. For this period, NECA's administrative cost is approximately 1.35% of total access revenues. (Table 3.7.) DRA believes that the administrator for the California high cost voucher fund will have responsibilities similar to NECA. (Table 3.8.) The California high cost voucher

fund should be smaller in size than the funds administered by NECA. Recognizing that there are economies of scale of managing a larger fund, DRA increased the administrative cost percentage from 1.35% to 1.5% of the total revenues of the California high cost voucher fund.

52. In the Universal Service OIR/OII, the Commission proposed that all telecommunications service providers contribute to the high cost voucher fund.[31] The Commission also proposed that a surcharge be assessed based on all of a carrier's transmission path revenues less access payments to other carriers. DRA supported the Commission's proposals in its September 1, 1996 Opening Comments.[32] In Resolution 15799 issued on November 21, 1995, the Commission approved a new surcharge rate for the Universal Lifeline Telecommunications Service program. In that resolution, it estimated a total telecommunications billing base for California at approximately $12.5 billion. Using this $12.5 billion billing base, DRA estimates the carrier surcharge for the support of the California high cost voucher fund to be approximately 6.5%. (Table 3.9.)

X. [Q.10] How should the funding mechanism for Universal Service account for the existing structure of implicit subsidies, and should the subsidy amounts flow to the existing local exchange carriers before rate deaveraging or rate rebalancing takes place?

53. As discussed in Section VII, DRA proposes that the Universal Service subsidy be offset by the EUCL, the interstate USF and the interstate CCLC. DRA recommends that the existing implicit subsidies to basic services from other competitive LEC services, particularly Yellow Pages, should be excluded from the subsidy offset calculation. Rather than use net revenues from other services as a direct offset to the universal service subsidy, DRA proposes that the LECs use those revenues to recover

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31. The Universal Service OIR/OII, proposed rule 6.F.
32. DRA's September 1, 1995 Comments at 30.

the shared and common costs they reasonably incur. More specifically, DRA's proposal allows LECs to use revenues derived from Yellow Pages to recover portions of the companies' shared and common costs associated with unbundled BNF services and other services which DRA proposes should be priced at TSLRIC. This proposal satisfies the Commission's imputation requirement for price floors, and is consistent with DRA's recommendation for pricing LECs' unbundled BNF services at issue in the concurrent OAND proceeding.

~~54. In summary, DRA recommends that rates for the LECs'~~ unbundled BNF services be set at TSLRIC with no mark-up or contribution for the recovery of the LECs' shared and common costs. This allows price floors for basic services to be set at TSLRIC, as discussed in Section VII, with zero contribution being imputed from the unbundled BNF services, which DRA views as the monopoly building blocks for purposes of the imputation requirement for basic services. Setting rates for unbundled BNF services at TSLRIC keeps prices of inputs purchased by CLCs from the LECs low; hence, encouraging competitive entry and greater utilization of the LECs' facilities

A. Commission's Imputation Requirement

55. The Commission's current imputation rule was adopted in the IRD Decision (D.94-09-065). This rule requires the LECs to impute in the price floors for their bundled retail services any contribution the LECs derive in the tariff rates for "essential services" or "monopoly building block" components of these bundled services. Under the present rule, "contribution" is derived by subtracting the tariff rate of the monopoly building block from its long run incremental cost (LRIC). The Commission's current imputation requirement is summarized in the ~~following equations~~

~~(1) Price Floor(BS) = LRIC(BS) + Contribution(MBB).~~

(2) Contribution(MBB) = Tariff(MBB) - LRIC(MBB)

where, (BS) represents any bundled service, (MBB) is the monopoly building block, and Tariff(MBB) is the tariff rate of the MBB. (D.94-09-065, pp. 212-214.)

56. As discussed in Section VII, DRA recommends that a statewide price floor for basic services be set based on the TSLRIC of the benchmark zone, as derived from the adopted proxy cost model. DRA's price floor proposal for basic services follows the imputation rule set forth in the IRD decision, except that DRA recommends the Commission change the costing standard from LRIC to TSLRIC in order to conform with the Commission-adopted costing methodology in the OAND proceeding. DRA does not recommend eliminating the imputation rule at this time. DRA still considers this rule to be a necessary safeguard to prevent anti-competitive behavior by incumbent LECs, particularly during the initial stages of competition in the local exchange market. Rather, DRA's proposal to set price floors for bundled basic (retail) services[33] equal to the TSLRICs of the bundled services is premised on the imputation of zero contribution from any "essential service" or "monopoly building block" that could arguably be considered as necessary for the other carriers' (i.e., CLCs') provisioning of competing retail services; i.e,

33. DRA's proposal in this report is limited to the following bundled basic retail services: residential flat rate, residential measured rate, Lifeline flat and measured, and business measured services. Applicability of DRA's price floors and imputation proposals with respect to other LEC services will be discussed in DRA's testimony in the OAND proceeding to be filed on May 15, ~~1996~~.

~~(3) Price Floor(Basic Service) = TSLRIC(Basic Service) +~~
Contribution(MBB)

where Contribution(MBB) = 0.

57. The unbundling of the LECs' network is currently under consideration in the OAND proceeding. DRA expects that the Commission will specify in that proceeding an initial set of basic network functions (BNFs) the LECs would be required to unbundle and offer as separate tariffed services to other competing carriers. Decision 96-03-020 in Phase II of the Local Competition proceeding found that these unbundled services would initially retain monopoly characteristics and appropriately classified them as Category I services. (D.96-03-020, pp. 54-55.) Thus, the unbundled BNF services should be considered essential services or monopoly building blocks for purposes of the imputation requirement.

58. Consistent with DRA's proposal to price unbundled BNF services at TSLRIC, DRA recommends that the LEC impute zero contribution from the unbundled BNF services into the price floors for bundled basic (retail) services.[34] That is,

(4) Price Floor(Basic Service) = TSLRIC(Basic Service) + Contribution(BNF)

where Contribution(BNF) = 0; hence,

(5) Contribution(BNF) = Tariff(BNF) - TSLRIC(BNF)

(6) 0 = Tariff(BNF) - TSLRIC(BNF)

34. Although the pricing of unbundled BNF services is one of the issues proposed for the OAND evidentiary hearings (see March 25, 1996, ALJ Ruling in the OAND proceeding), DRA addresses the issue in this report because of its implications on DRA's subsidy and ~~price floor~~ proposals ~~in the instant proceeding~~.

~~Rearranging terms in equation (6) above results in the following~~:

~~(7) Tariff(BNF) = TSLRIC(BNF~~)

59. DRA recognizes that pricing unbundled BNF services at TSLRIC means that these services would not be contributing towards the recovery of any of the shared and common costs ~~the~~ the LEC reasonably incurs as a company. As per the consensus costing principles that the Commission adopted in D.95-12-016 in the OAND proceeding, shared and common costs are not included as part of the direct costs (i.e., TSLRICs) of a particular service. These costs are to be separately identified and recovery of these costs is considered to be a pricing issue.[35]

60. Under DRA's proposal, the LECs would have the opportunity to recover their respective shared and common costs from sources other than directly through rates for unbundled BNF services. These sources include revenues derived from rates for bundled discretionary and partially competitive Category II services, Yellow Pages and other properly priced Category III

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35. See August 23, 1995, Consensus Costing Principles/Basic Network Functions: OAND Cost Methodology Workshops ("Consensus Document"), adopted by the Commission in D.95-12-016. Common costs may be distinguished from "overhead" costs and "common overhead" cost. Common costs refer to costs that a LEC incurs by being in business and which can only be avoided if the company ceases operations and goes out of business. Costs often called overhead costs may be included in TSLRIC studies if those costs are caused by the decision to offer a particular service. As per the Consensus Document, p. 4, "no costs shall be assumed to be volume-insensitive ~~cost~~ common cost on the basis of its accounting treatment." Corporate costs are generally considered as part of common overhead costs.

services.[36] DRA notes that Section 728.2 of the P.U. Code allows the Commission to determine that Yellow Pages revenues may be used as an offset to the LECs' shared and common costs not recovered via the TSLRIC-based rates for their unbundled BNF services. In particular, Section 728.2 (a) allows the Commission to "consider revenues and expenses with regard to the acceptance and publication of such advertising for purposes of establishing rates for <u>other services</u> offered by telephone corporations." (Emphasis added.) ~~DRA's proposal effectively would take into account~~ Yellow Pages revenues in setting rates for unbundled BNF services rather than treating those ~~revenues as a source of subsidies for basic services~~.

61. The LECs' other competitive and discretionary Category II services are further sources of contribution for the recovery of the LECs' shared and common costs. ~~In the case of residential basic~~ services (and business services to the extent they would be subject to ~~the~~ Universal Service subsidy), DRA's pricing flexibility proposal ~~for these~~ services (as discussed in Section VII), would allow the LECs to price ~~these~~ basic services up to a price ceiling reflecting some contribution to ~~their~~ shared and ~~common costs~~.

62. Using Pacific as an example, Pacific estimated in its OAND cost studies that its total shared and common costs are

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36. In the case of the small and mid-size LECs, other explicit subsidies such as the current Settlements/Transition Payments, to the extent that they are retained, would also be additional sources of revenues for these LECs' recovery of their respective shared and common costs.

approximately [.............] per year.[37] The validity and reasonableness of this amount is still contentious in the OAND proceeding as per the April 3, 1996, opening comments filed by parties in that proceeding.[38] Pacific's net revenues (after taxes) from Yellow Pages amount to approximately [...........] in 1995.[39] This represents 16% of the [.... ....] total shared and common costs reported by Pacific in OAND. DRA considers Pacific's Yellow Pages net revenues to be reasonably sufficient to recover the shared and common costs associated with its unbundled BNF services. ~~which Pacific would not be able to directly~~ recover from these services if they are priced at TSLRIC, as ~~DRA recommends~~.[40]

63. Implementing DRA's pricing ~~flexibility~~ proposal for Pacific's basic services would enable Pacific to ~~further~~ recover ~~portions of its shared and common costs from these services. As~~

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37. See Pacific's OAND Exhibits and Workpapers, Miscellaneous Binder, Tab 5, Shared and Common Costs, submitted on January 31, 1996.

38. See Comments of the California Telecommunications Coalition on the Phase I and Phase II Cost studies submitted by Pacific Bell and GTEC California, Inc., pp. 40-59; Opening Comments of the Division of Ratepayer Advocates on Round I and II Cost Studies, pp. 4, 18; and Comments of the California Cable Television Association on Pacific Bell's Round I and Round II Cost Studies, pp. 13-25.

39. This is an annualized amount of the [.............] that Pacific reported in Pacific's 3rd Quarter 1995 Year-to-Date IEMR Supplement - Intrastate Category III Reconciliation Report (Monitoring Report No. PF-01-B300), submitted as part of Pacific's monitoring report requirements under NRF.

40~~. A similar example cannot be constructed for GTEC since it~~ has not presented an ~~estimate of shared and~~ common costs in the ~~OAND proceeding to date.~~

~~illustrated in an example presented in Section VII, assuming that~~ Pacific is allowed to price basic services up to a price ceiling which reflects a [.....] per ~~line~~ mark-up above TSLRIC, Pacific would have the opportunity to recover up to [...........][41] ~~contribution towards its shared and common costs. This example shows that~~ Pacific could fully recover the remaining amount of shared and common costs from its other competitive and discretionary services such as intraLATA toll, vertical services, and other access services.

64. Using Pacific's Service Specific Tracking Reports filed under the NRF monitoring report program, DRA estimates that Pacific derived net revenues (after taxes) above Direct Embedded Costs (DEC) of about [...........], in the aggregate, for various Category I and Category II services (excluding basic access services) in 1995. (See Table 3.10.)[42] DRA believes that this amount is already net of a substantial portion of the total shared and common costs Pacific reported in OAND, except for common overhead costs not included in a DEC calculation. Even adjusting for potential losses in market shares and price

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~~41. See Table 3.5 and Table 3.6 discussed in Section VII. The total amount of [...........] is derived as follows: [.........~~
~~...].~~

42. As shown in Table 3.10, it appears that certain Category II services (i.e., High Speed digital Private Line and Low Speed Private Line) are priced such that their revenues are not sufficient to cover DEC. DRA notes a similar occurrence for other Category III above-the-line (ATL) services (not shown in Table 10.1), for which Pacific reported negative net revenues of around [..........] (annualized) for 1995. DRA is concerned that such occurrences may be reflective of improper cross-subsidization and below cost pricing by Pacific. DRA therefore urges the Commission to further investigate this issue and possibly require the LECs to reset their rates for the affected services to be more in line with their costs.

decreases as competition intensifies in the markets for these services, DRA contends that Pacific would have ample revenues from these Category II services to recover more than its residual shared and common costs.

~~B. Proposals Balance the Interests of Ratepayers, the CLCs~~, and the LECs.

65. DRA's imputation and price floor proposals for basic services benefit ratepayers because the price floor for bundled basic retail service will be lower than what would result if contribution from unbundled BNF services is otherwise imputed in the price floor for these bundled services. Allowing the incumbent LECs the flexibility to price basic services down to relatively lower price floors affords ratepayers the benefit of more potential price competition in the market. The LECs, in turn, would have a wider pricing window within which to respond to rates offered by competing carriers.

66. DRA's proposal protects basic service customers from price gouging by the incumbent LECs. As discussed in Section VII, DRA recommends that the Commission adopt a price ceiling for basic services based on some "mark-up" over the TSLRIC for the benchmark zone. Imposing such a price ceiling essentially constrains the incumbent LECs' ability to take advantage of customers' relatively inelastic demand for basic services by loading a disproportionate amount of contribution for the recovery of shared and common costs onto these services.

67. Pricing of unbundled BNF services at TSLRIC will encourage competitive entry into the local exchange market. It allows competing carriers (CLCs) to purchase from the incumbent LECs unbundled network functionalities or BNF services at the lowest price possible, thereby minimizing the potential for the ~~LECs to price squeeze their competitors out of the retail~~

~~services market. To the extent that competing carriers require~~ the LEC's unbundled BNF services as inputs into their retail services, pricing these inputs above TSLRIC would increase the costs to these carriers and make it more difficult for them to compete with the incumbent LECs in the retail market.

68. If the LECs charge CLCs inflated rates for the BNF inputs (by requiring a mark-up to reflect contribution to shared and common costs), the result may be uneconomic CLC investments in duplicate facilities to bypass the LECs' networks. Setting prices for the LECs' unbundled BNF services at TSLRIC sends the right signal to the market that only efficient facilities-based carriers, whose TSLRIC costs for equivalent BNF services are lower than the LECs, should invest in such facilities. Greater utilization of the incumbent LECs' networks is also encouraged to the extent that it is more economic for the LECs' competitors to purchase BNF inputs from the LECs rather than build their own facilities.

69. Under DRA's imputation and price floor proposals, the LECs' are afforded an opportunity to recover the total costs they incur as a company. Although DRA's proposal would limit the Universal Service subsidy to the recovery of the LECs' TSLRICs for basic services (offset by the EUCL, the Federal USF, and the CCLC), DRA also recommends that the LECs be allowed the flexibility to price basic services up to a price ceiling; thus, giving them the opportunity to recover their shared and common costs. (See discussion in Section VII.) Furthermore, as discussed in Section X.A above, the LECs have other sources of revenues to recover the shared and common costs associated with unbundled BNF services, without building contribution into the ~~prices of these BNF services directly~~.

C. Jurisdictional Cost Separations

70. DRA's imputation and price floor proposals for basic services take into account that the TSLRIC cost studies Pacific and GTEC have submitted in the OAND proceeding, as well as the Cost Proxy Model (CPM) results Pacific has presented in the instant proceeding, are all reflective of total company costs. These cost studies generally do not segregate costs associated with the use of the LECs' network for interstate services. Pacific and GTEC, for example, derived unit investments for various BNFs using the capacity cost approach, regardless of whether a given BNF is used for intrastate or interstate service offerings. DRA further understands that no jurisdictional separations or allocations were performed on various capital and expense accounts prior to their being used in the cost studies, except in instances when certain accounts are identifiable to be directly related to the LECs' interstate services.

71. Given the total company nature of the TSLRICs that the two LECs developed for unbundled BNF services, using these TSLRICs in setting California rates for such services could be perceived as setting rates which implicitly have contribution built into them. Contribution, in this case, refers to the interstate costs that are implicit in the total company TSLRICs at which rates for the unbundled BNF services are set.[43] One could argue that the total company TSLRIC-based rates for these BNF services should be offset by some amount reflecting allocated

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43. DRA notes that the Commission's discussion of its imputation rule in the IRD decision does not explicitly address the issue of jurisdictional separations of costs. (See D.94-09-065, pp. 204-231.) DRA recognized the issue fairly recently and would like the Commission to similarly consider its implications as DRA points out herein.

costs to the interstate jurisdiction (e.g., by the EUCL, in the case of unbundled link or loop service). Alternatively, one could also propose that, if unbundled BNF rates are set at their total company TSLRICs, the implicit contribution should be included in the price floors for bundled basic services as per the current imputation rule.

72. DRA's proposal implements the latter approach as earlier elaborated in Section VII. DRA recommends setting the price floors for basic services at their total company TSLRICs (which have built into them the interstate cost, represented by the EUCL and CCLC), while setting rates for unbundled BNF services at their TSLRICs with no offset for interstate costs. Setting unbundled BNF rates at their TSLRICs implicitly allows the LECs to recover from purchasers of these unbundled BNF services (most likely other CLCs) portions of interstate costs included in the TSLRIC-based rates. The CLCs, in turn, should have the option to recover these costs from the rates they charge their respective retail services' customers.

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ATTACHMENTS

TO

CHAPTER 3

Pacific - Shared Family Buckets by Cost Categories
Source: OANAD Cost Binder "Misc", Tab 5

Comparison of GTEC's Basic Service Costs
Souce: CPM outputs (March 26, 1996), and OANAD-G

CPM - Statewide
Souce: CBG Summary File

	Dollar (a)	Number of CBGs (b)	Average Increment Per CBG (c)	Number of Lines (d)
1	$16.00 - $16.99	34	$0.029	23,603
2	$17.00	304	0.003	205,563
3	$18.00	821	0.001	527,655
4	$18.00	1,160	0.001	727,538
5	$20.00	1,545	0.001	965,893
6	$21.00	1,101	0.001	620,653
7	$22.00	1,322	0.001	780,882
8	$23.00	953	0.001	562,392
9	$24.00	924	0.001	590,864
10	$25.00	744	0.001	506,046
11	$26.00	987	0.001	623,497
12	$27.00	1,023	0.001	672,022
13	$28.00	1,193	0.001	832,001
14	$29.00	935	0.001	701,395
15	$30.00	612	0.002	439,604
16	$31.00	460	0.002	354,085
17	$32.00	405	0.002	269,100
18	$33.00	207	0.005	256,124
19	$34.00	131	0.008	105,102
20	$35.00	146	0.007	101,992
21	$36.00	112	0.009	72,755
22	$37.00	118	0.008	75,100
23	$38.00	73	0.014	47,298
24	$39.00	63	0.016	31,332
25	$40.00	66	0.015	30,176
26	$41.00	59	0.017	29,817
27	$42.00	61	0.016	25,354
28	$43.00	51	0.020	22,464
29	$44.00	58	0.017	30,437
30	$45.00	42	0.024	19,479
31	$46.00	47	0.021	19,736
32	$47.00	32	0.031	22,076
33	$48.00	37	0.027	16,592
34	$49.00	39	0.026	16,217
35	$50.00	31	0.032	14,417
36	$51.00	27	0.037	12,156
36	$52.00	27	0.037	18,044
38	$53.00	37	0.027	14,352
39	$54.00	20	0.050	6,879
40	$55.00	20	0.050	8,932
41	$56.00	17	0.059	7,523
42	$57.00	16	0.063	4,607
43	$58.00	12	0.083	6,296
44	$59.00	20	0.050	5,123
45	$60.00 - $69.99	9	0.111	2,910
Total		16,101	$0.003	10,426,083

Table 3.3.DRA

CPM - Statewide
Cost Per Density Zone

	Statewide (a)	Zone-1 (b)	Zone-2 (c)	Zone-3 (d)	Zone-4 (e)	Zone-5 (f)	Zone-6 (g)	Zone-7 (h)
Number of Lines	12,794,983	77,113	268,156	348,418	768,422	3,260,958	5,820,827	2,251,089
1 Distribution	4.69	33.23	16.73	12.84	7.30	4.93	3.85	1.93
2 Feeder	4.27	61.83	15.24	11.28	5.09	4.16	3.20	2.56
3 Electronics	1.65	2.54	2.41	2.14	1.98	1.74	1.60	1.35
4 Std Svc	5.51	6.87	6.75	6.26	5.59	5.59	6.10	5.25
	16.12	104.47	41.13	32.52	19.96	16.42	14.75	11.09
5 Usage	1.73	1.59	1.61	1.66	1.67	1.70	1.82	1.58
6 D/A	1.02	1.27	1.26	1.16	1.10	1.03	1.00	0.97
7 Operator	0.12	0.15	0.15	0.14	0.13	0.12	0.12	0.12
8 White Page	0.34	0.42	0.42	0.39	0.37	0.34	0.33	0.32
9 Total TSLRIC (1FR)	**$19.33**	**$107.90**	**$44.57**	**$35.87**	**$23.23**	**$19.61**	**$18.02**	**$14.08**
10 Pacific's 1FR + EUCL								**$14.75**
	<- -	**- - - -**	**High**	**Cost**	**Areas**	**(1FR/1MR)**	**- - - - - >**	**Benchmark Zone**
11 Subsidy (1FR)	**$5.25**	**$93.82**	**$30.49**	**$21.79**	**$9.15**	**$5.53**	**$3.94**	**$0.00**
					(g10-j10)	(h10-j10)	(i10-j10)	
12 Assumption: 1MR Cost	**$18.33**	**$106.90**	**$43.57**	**$34.87**	**$22.23**	**$18.61**	**$17.02**	**$13.08**
13 Subsidy (1MR)	**$5.25**	**$93.82**	**$30.49**	**$21.79**	**$9.15**	**$5.53**	**$3.94**	**$0.00**
					(g12-j12)	(h12-j12)	(i12-j12)	

CPM - Statewide
Cost Per Density Zone

	Statewide (a)	Zone-1 (b)	Zone-2 (c)	Zone-3 (d)	Zone-4 (e)	Zone-5 (f)	Zone-6 (g)	Zone-7 (h)
Number of Lines	12,794,983	77,113	268,156	348,418	768,422	3,260,958	5,820,827	2,251,089
1 Distribution	$4.69	$33.23	$16.73	$12.84	$7.30	$4.93	$3.85	$1.93
2 Feeder	4.27	61.83	15.24	11.28	5.09	4.16	3.20	2.56
3 Electronics	1.65	2.54	2.41	2.14	1.98	1.74	1.60	1.35
4a Rearrangement	1.43	1.43	1.43	1.43	1.43	1.43	1.43	1.43
4 Std Svc	4.08	5.44	5.32	4.83	4.16	4.16	4.67	3.82
	16.12	104.47	41.13	32.52	19.96	16.42	14.75	11.09
5 Usage	1.73	1.59	1.61	1.66	1.67	1.70	1.82	1.58
6 D/A	1.02	1.27	1.26	1.16	1.10	1.03	1.00	0.97
7 Operator	0.12	0.15	0.15	0.14	0.13	0.12	0.12	0.12
8 White Page	0.34	0.42	0.42	0.39	0.37	0.34	0.33	0.32
9 Total TSLRIC (1FR)	$19.33	$107.90	$44.57	$35.87	$23.23	$19.61	$18.02	$14.08
10 Pacific's 1FR + EUCL								$14.75
		< - - -	High	Cost	Areas	(1FR/1MR)	- - - - - >	Benchmark Zone
11 Subsidy (1FR)	$5.25	$93.82	$30.49	$21.79	$9.15	$5.53	$3.94	$0.00
					(e9-h9)	(f9-h9)	(g9-h9)	
12 Assumption: 1MR Cost	$18.33	$106.90	$43.57	$34.87	$22.23	$18.61	$17.02	$13.08
13 Subsidy (1MR)	$5.25	$93.82	$30.49	$21.79	$9.15	$5.53	$3.94	$0.00
					(e12-h12)	(f12-h12)	(g12-h12)	

Above numbers represent average of flat and measured service.

Table 3.4.DRA
Revised.5/4/96

* Amended 5/3/96

Pricing Flexibility - Pacific

Source: January Proprietary CPM

Projected Subidies Requirement for Residential Basic Services
Per CPM March 16 Statewide Data

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
CATEGORY I. ADMINISTRATIVE COSTS
JULY 1, 1996 THROUGH JUNE 30, 1997
(IN MILLIONS)

CATEGORY	PROJECTED REVENUES	PCT. OF TOTAL	AMOUNT
Universal Service Fund and Lifeline Assistance - I.A.	$903.7	31.8%	$12.2
End User Common Line, Carrier Common Line, Special Access Surcharge, and Long Term Support - I.B. *	$1,073.0	37.7%	$14.5
Other Association Access Charges - I.C. **	$866.1	30.5%	$11.7
	$2,842.8	100.0%	$38.4

* Category I.B. does not include Transitional Support in the allocation of NECA Administrative Expenses.

** Category I.C. is split to Traffic Sensitive Switched Access and Traffic Sensitive Special Access.

NOTE: NECA's projected Category I Administrative Costs for the test period are $38.4 million. This amount is derived from NECA's corporate budget.